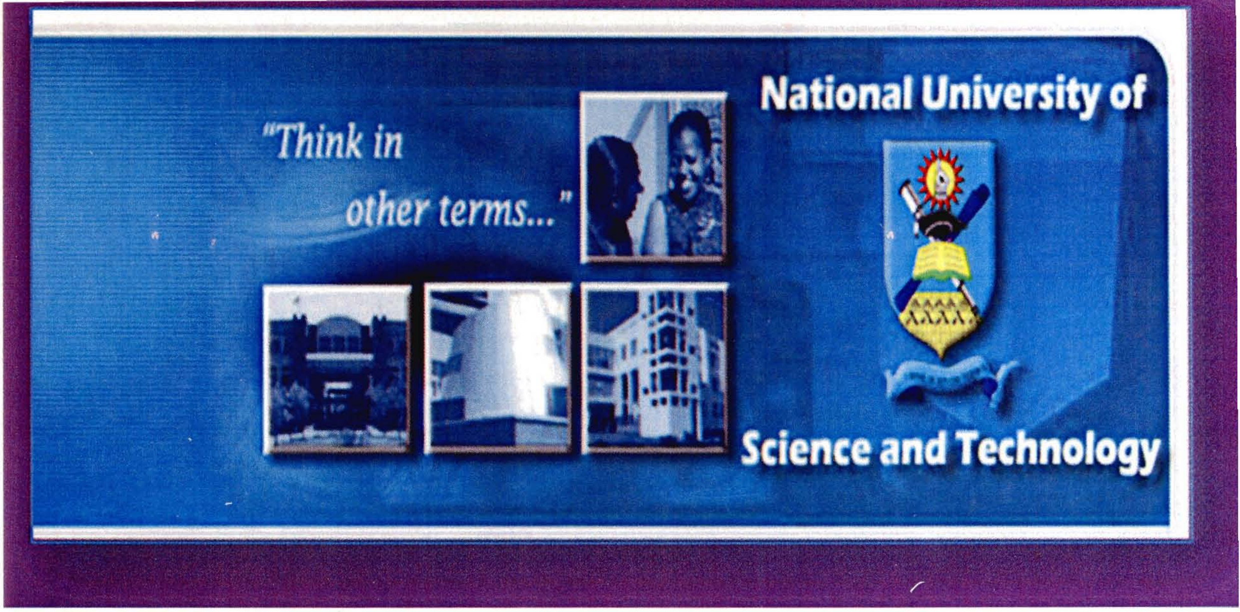

FACULTY OF COMMERCE

DEPARTMENT OF BANKING

DETERMINANTS OF INTEREST MARGINS IN ZIMBABWEAN COMMERCIAL BANKS (2009-2012).

BY

MADIBHA SCHOLASTICA KUNDAYI

REGISTRATION NUMBER: N0113454M

SUPERVISOR: MR P NKALA

Dissertation submitted in partial fulfilment of the requirements of the Master of Science Degree in Banking and Financial services.

August 2013

ABSTRACT

Despite the liberalization of the financial sector, high interest margins are still an issue of concern in a number of countries in Sub Saharan Africa, including Zimbabwe. This research empirically investigates the determinants of net interest margins in Zimbabwe's commercial banking sector using panel data of 10 commercial banks for the period 2009 to 2012. The panel data is used to establish whether they are significant relationships between net interest margins and bank specific, market specific and macro economic factors. The empirical results show that bank-specific factors play a significant role in the determination of interest rate margins whilst market and macro economic factors are insignificant. A qualitative study with research subjects consisting of twenty bank executives is used to analyse the regulatory specific factors. Due to challenges with measurements, the regulatory specific variables are analysed using primary data collected using questionnaires. The analysis of regulatory specific factors reveal that monetary regulatory factors such as minimum capital requirements, minimum lending rates and taxation do affect interest margins positively whilst those to do with restriction of activities, entry and freedom to not affect interest margins of Zimbabwean banks. On average, domestic banks have higher interest margins compared to foreign banks due to liquidity and credit risk constraints of the latter. There is need to explore policy options meant to enhance participation of foreign banks on the interbank in order to release the liquidity that they are hoarding. The central bank which has abandoned most of its roles needs to be capitalized so as to be efficient and effect. Further, the banking sector needs to explore internal as well as industry-driven strategies that counter some of the bank-specific factors associated with higher interest margins. These could range from diversification of products to investment in cost-saving and efficient forms of technology.